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March 2013

Leprechauns, Tooth Fairies and Sales Tax

WARNING: IF YOU BELIEVE THE TOOTH FAIRY EXISTS DO NOT KEEP READING!

Did you ever wonder why leprechauns were so cranky? Some people believe they are cranky because they are constantly repairing the shoes of the tooth fairy and all the other fairies. However we think the leprechaun is a different kind of cranky. The leprechaun is the kind of cranky that only happens when someone is audited by the tax department. Yes, even leprechauns get audited...the tax department does not discriminate.



In February, the tax department audited Cupid for his online dating services website. Cupid had no idea that his dating website was a taxable information service in the state of New York. Luckily, when Cupid received his assessment from the tax department, he was able to shoot the auditor with his arrow filled with love potion. Once the auditor found his true love, he was a little more lenient and waived penalties on Cupid's final assessment.

In April, the tax department audited the Easter Bunny for his purchases of eggs. The Easter Bunny was nervous, because he heard about how Cupid's audit went and he knew he didn't have a bow and arrow to make the auditor fall in love. Eggs are exempt from sales tax in the state of New York and the Easter Bunny's audit resulted in a no change.

In June, the Leprechaun was excited to see that the tax department was auditing the tooth fairy. After all, the Leprechaun was tired of repairing the tooth fairy's shoes day after day. The tooth fairy was confused and not sure why she was being audited. The auditor told the tooth fairy that her business was considered to be dental services. Luckily, the Tooth Fairy previously met with Sales Tax Defense LLC and had started filing yearly sales tax returns. Since the returns had been filed, the Tooth Fairy was only audited for 3 years instead of 6! Even though just like the Easter Bunny the audit resulted in a no change because dental services are not one of the enumerated services subject to sales tax, the Tooth fairy was thankful that the work only needed to be done for half the usual time period.

In December, the Tax Department audited Santa Claus! Santa Claus was confused because he paid sales tax for all of his toys, but the Tax Department was looking at his purchase of the reindeer. "My reindeer?" questioned Santa Claus, "They are part of my family, why would I pay sales tax on my reindeer? It doesn't make any sense." What Santa Claus did not know is that animals are considered to be tangible personal property in the state of New York and are therefore subject to sales tax. Santa Claus owed the tax department use tax on the purchases for each of his reindeer. However, since the auditor was dealing with Santa Claus, the auditor was afraid if he was nasty that Santa Claus would only bring him coal and the auditor did not want to be exiled from the nice list for the rest of his life. Luckily this forced the auditor to give Santa a payment plan to pay the assessment rather than putting him out of business.

The Leprechaun thought he escaped being audited, but received an audit appointment letter on March 1, 2013. The Leprechaun had previously met with Sales Tax Defense LLC for their research services and knew that his charges to the Tooth Fairy and her friends for their shoe repairs were subject to tax. He was collecting the tax, but as all Leprechauns are, this Leprechaun was greedy and he wanted to keep all of his gold for himself. He never thought he would get caught; he's a sneaky Leprechaun, how could he ever be caught? Well he was caught and now he was nervous. He knew that collecting sales tax and not remitting it was a crime and he knew he could go to jail. He couldn't ask the Tooth Fairy for help because she knew he was happy when it was her turn to get audited. Instead the Leprechaun did the only thing he could think of. He hired Sales Tax Defense LLC to ensure he had both attorney client privilege and the most experienced sales tax team who would use all of their knowledge to get him the best audit result possible.

So like the Leprechaun, if you ever receive a notice and you don't have access to a bow and arrow filled with a love potion and you can't exile people to the naughty list, call Sales Tax Defense LLC and we can help you to preserve your pot of gold.



Success Stories TWO NO CHANGE AUDITS!

The New York State Department of Taxation & Finance deemed the first business to be a hotel for sales and use tax purposes and sought to assess sales tax on all rental transactions. However, the business was actually an apartment complex which occasionally allowed individuals to rent furnished rooms on a short term basis. To further complicate the audit, the business had built the apartment complex during the audit period – while the building of a brand new apartment complex may appear to be an obvious Capital Improvement, there are a lot of facts which must be considered.

By proving to the auditor that the business was not operating a hotel, no tax was assessed on the business's sales. Between the construction of the new apartment complex and the auditor's usual review of expenses, we were able to show that no tax was due in those areas either.

At the end of the audit, the auditor agreed that no tax was due!

The second business had been audited previously and was assessed tax on their prior audit. Despite maintaining adequate books and records for sales and use tax purposes, the auditor questioned the taxability of many of the business's sales, many of which were out-of-state sales. The auditor also questioned the taxability of many of the business's expenses.

By working with the business, we were able to provide the documentation necessary to show tax was collected and remitted when it should have been and that tax was paid on expenses when it should have been.

Sometimes, despite an auditor's best efforts, it can take them longer than a business may want for the auditor to conduct an audit. After all, auditors are human too. This audit was a prime example of an audit which could have taken longer than anticipated and required a lot of follow up with the auditor.

In the end, we were able to show the auditor that no tax was due and received that result as fast as could be expected given the circumstances.

About Us

We are a dedicated team of tax professionals who have committed our careers to helping businesses and fellow professionals with tax problems. Since the only work we are focused on is solving tax problems, businesses never have to be concerned that we will try to sell them other services they do not need. And professionals never have to be concerned with us encroaching on their client relationships, because we view you, our fellow professional, as our client.

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